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SENSITIVE

STATE FOR NEA/ELA, NEA/RA, EB/IDF/OMA
USAID FOR ANE/MEA MCLOUD AND DUNN
TREASURY FOR NUGENT AND HIRSON
COMMERCE FOR 4520/ITA/ANESA/TALAAT

E.O. 12958: N/A

TAGS: [ECON](#) [EAID](#) [EFIN](#) [EG](#)

SUBJECT: EGYPT: CONGRESSIONAL EARMARK AGAINST PRESIDENT'S 2007 APPROPRIATIONS REQUEST WOULD HAMPER ASSISTANCE GOALS

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REF: A. Cairo 5001
[¶](#)B. Cairo 5169

[¶1.](#) (U) ACTION REQUEST: Please see para 4.

[¶2.](#) (SBU) The Senate version of the 2007 Foreign Operations Bill contains language restricting the President's budget request and discretion in using it. If left unchanged, these restrictions will make it difficult to meet the goal of negotiating an updated, more effective model for economic assistance to Egypt. The aim of the new model is to get better results at lower costs, by putting more responsibility on the Egyptians to develop and implement a program agreed to by both governments, and disbursing funds based on achievement of specific benchmarks. The Senate version of the appropriations bill would reduce flexibility in responding to Egyptian proposals for development/reform objectives and benchmarks.

[¶3.](#) (SBU) Since 1975, Congress has appropriated assistance to Egypt as a "lump sum" drawn from Economic Support Funds (ESF). The Senate is now proposing to split the assistance program among four different funding sources: democracy, health and child survival, basic education and economic support. This could make sense from an accounting point of view, as it would be easier to determine how much money was spent in these four areas. However, it would remove flexibility for the Administration in responding to the Egyptian government's proposals for development/reform objectives, as each of the four funds carries a different set of restrictions on its use.

[¶4.](#) (SBU) Another concern is the possible rescission of FY 2006 monies. The House has proposed a \$300 million rescission in FY 2006 ESF for Egypt, while the Senate proposed \$200 million. These proposals were based in part on the perception that Egypt was not making adequate progress in meeting the benchmarks agreed to under the Financial Sector MOU, and would therefore be ineligible to receive these funds. Regarding the House bill, Congressman Kolbe said that they would reconsider if Egypt did show progress. In our view, as reported Refs A and B, Egypt is making strong progress on the MOU benchmarks. One of the most important benchmarks still pending, privatization of the Bank of Alexandria, is expected by the first week of October.

[¶4.](#) (SBU) ACTION REQUEST: Sustaining the President's request, unencumbered by the restrictions in the draft bills, will require determined advocacy by the Department. Specifically, the Administration must gain removal of the language in the 2007 Senate version of the Foreign Operations Appropriate Bill that would split

the assistance program into four funding areas, rather than just ESF. The U.S. Administration would be best served by retaining the current system of appropriating all assistance solely from ESF funds. Congress could then earmark some portion of the assistance for certain important activities, such as promoting democracy and freedom. We would meet those earmarks, as we have in the past, but would still have the flexibility needed to negotiate with the Egyptian government on amounts and uses of the assistance funds. Secondly, we need both houses to remove the rescission provisions in the current bills. This will require detailed briefing of appropriate members and staff on Egypt's progress on financial sector reform, drawing from points in refs A and B.

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